SKAGGS COMPANIES, INC. 1975 ANNUAL REPORT

SKAGGS COMPANIES, INC. 1975 ANNUAL REPORT

CONTENTS

	Page
Summary of 1975's Results by Quarter	3
Letter to Shareholders	4-5
Management's Discussion and Analysis of the Consolidated Statement of Income	9
Financial Review	10-17
Reports of Accountants	18
Consolidated Statements of Income	19
Consolidated Statements of Financial Position	20-21
Consolidated Statements of Stockholders' Equity	22
Consolidated Statements of Changes in Financial Position	23
28-Year Financial Summary	24-25
Other Information about the Company	26-28

SKAGGS COMPANIES, INC.

The Company operates 170 retail super drug stores in 17 western and mid-western states. A super drug store carries numerous lines of general merchandise in addition to the traditional products found in neighborhood or corner drug stores, and is substantially larger than such stores. In addition, the Company and Albertson's, Inc. each own 50% of a partnership (the "Partnership") which operates 47 super drug-grocery combination stores and 14 super drug stores in five southwestern and southern states. The combination stores offer groceries as well as super drug store merchandise, and the drug and grocery shopping areas in such stores are served by a common set of check-out stands.

(dollar amounts expressed in thousands, except per-share data)

Revenues	**1975**	**1974**	**1973**	**1972**	**1971**
Sales	**$625,688**	$ 498,677	$ 412,324	$ 357,418	$ 319,973
Other Income	**2,130**	2,019	2,418	2,078	2,220
Total Revenues	**627,818**	500,696	414,742	359,496	322,193
Cost of Sales	**474,883**	378,677	315,931	273,521	240,759
Interest Expense	**2,317**	2,578	2,460	1,835	1,421
Income before Taxes	**24,821**	19,276	13,416	8,407	10,213
Provision for Taxes	**11,590**	9,269	6,214	3,825	5,089
Net Income	**$ 13,231**	$ 10,008	$ 7,202	$ 4,582	$ 5,124
Per-Share Data:*					
Net Income	**$ 1.78**	$ 1.35	$ .97	$ .62	$ .69
Common Stock Cash Dividends Declared	**.40**	.30	.27	.27	.26
Equity	**10.81**	9.43	8.39	7.68	7.33
Other Data:					
Net Income as a Percent of Sales	**2.11%**	2.01%	1.75%	1.28%	1.60%
Shareholders' Equity	**$ 80,323**	$ 69,981	$ 62,077	$ 56,847	$ 54,246
Return on Equity	**18.9%**	16.1%	12.7%	8.4%	9.9%
No. of Shares Outstanding	**7,427,470**	7,418,594	7,401,904	7,401,782	7,401,483
No. of Stockholders at Year End	**5,397**	5,732	5,275	5,292	5,681
No. of Emloyees at Year End	**9,758**	9,140	7,818	7,467	6,864
Income Tax Rate	**46.7%**	48.1%	46.3%	45.5%	49.8%

*Per share figures adjusted to give retroactive effect to stock split in February, 1976.

SUMMARY OF 1975's RESULTS BY QUARTER

(unaudited, dollar amounts expressed in thousands, except per-share data)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
Sales	$129,989	$147,033	$155,441	$193,225	**$625,688**
Other Income	456	541	508	625	**2,130**
Total	130,445	147,574	155,949	193,850	**627,818**
Income Before Taxes	3,238	5,457	5,221	10,905	**24,821**
Income Taxes	1,590	2,680	2,560	4,760	**11,590**
Net Income	$ 1,648	$ 2,777	$ 2,661	$ 6,145	**$ 13,231**
Net Income Per Share	$ .22	$ .37	$ .36	$ .83	**$1.78**
Average Shares Outstanding	7,419,937	7,427,470	7,427,470	7,427,470	**7,423,846**
Skaggs-Albertson's Contributions*					
Sales	$ 43,073	$ 49,176	$ 55,144	$ 64,829	**$212,222**
Other Income	74	107	113	15	**309**
Total	43,147	49,283	55,257	64,844	**212,531**
Income Before Taxes	1,269	1,646	1,427	2,203	**6,545**
Net Income	$ 644	$ 841	$ 727	$ 1,241	**$ 3,453**
Net Income Per Share	$ .09	$ .11	$ .10	$ .17	**$ .47**

*Skaggs-Albertson's is a 50% owned partnership, each partner sharing equally the income and expenses. This represents Skaggs' 50%.

High and Low Sales Price and Declared Dividends Per Share For Common Shares Traded on the New York Stock Exchange (Symbol: SKG)

	Common Shares				Dividends Per Share	
	1975		1974		1975	1974
Quarter	High	Low	High	Low		
First	13⅝	6⅞	8⅝	7	$ .10	$ .07
Second	19⅝	12	8⅜	7	$ .10	$ .07
Third	18¼	12⅞	8⅛	5⅛	$ .10	$ .07
Fourth	22⅝	15⅜	8⅞	5⅜	$ .10	$ .10

Prices have been adjusted to the nearest ⅛ for the three-for-two stock split in February, 1976.

SKAGGS COMPANIES, INC.

Record setting sales and earnings were achieved in 1975 with sales gaining 25% to $625,688,191 and earnings up a vigorous 32% to $13,231,456. Per share earnings of $1.78 compared most favorably to $1.35 of last year as adjusted to reflect a three for two stock split announced by the Board of Directors on February 10, 1976.

The financial gains of this year were of particular significance since the two preceding years have been outstanding for our company with sales up 21% and 15%; and profits increasing 39% and 57% respectively in '74 and '73. These gains occurred during years when many retailers suffered major sales and profit declines or minimal gains which were caused by the energy crisis of 1973 and the softening of the economy in 1974. Our continued solid gains in 1975 were primarily a result of improved sales and profits in old stores, maturity of new stores opened a year ago, and great care in opening a record number of new stores without incurring unexpected costs. In fact, in some instances, we achieved profitability within the first few months of operation.

Fourth quarter sales, always our largest, were very strong reflecting a more nearly typical Christmas with impulse items selling well, decorations and lights in strong demand and sales beginning briskly right after Thanksgiving. Seasonal inventories were reasonably in line at year-end. Total inventories increased in dollar amount but decreased as a percentage of sales. Return on Stockholder's Equity (R.O.E.) rose to 18.9% this year and approaches the 20% level of pre-1971 when this ratio declined as a result of the acquisition of the Katz Drug Company. The Board of Directors on March 3, 1976 declared a 25% increase in the regular quarterly cash dvidend of 12½¢ from 10¢ per share as adjusted to reflect the 3 for 2 stock split. This action occurs just 15 months after our last declared dividend increase. Also, the increase in net earnings by 3.2 million from 10 million to 13.2 million is the largest dollar increase in the Company's history.

Our store opening program during 1975 exceeded our projections of a year ago. We opened 19 Skaggs Drug Centers (projection 8) and 12 Skaggs-Albertson's (projection 11) for a total of 31 new stores. Two new Skaggs Drug and two Skaggs-Albertson's stores have been opened since the first of the year. Plans for the balance of 1976 and 1977 include 11 drug and 18 partnership stores. Much of the extra growth in '75 came from opportunities to acquire locations which normally would have been unavailable during a more favorable retailing year. Many companies were cutting back on growth and we were able to take advantage of our strength in anticipation of renewed economic progress.

Our stores in Bakersfield were our first entry into the southern California market beginning in the fourth quarter of 1973. Those stores became profitable in the fourth quarter of 1974. In midyear 1975 we began a more concerted effort to develop the southern California market by selecting Orange County in which we've opened six stores and have three under construction. Orange is a logical continuation in southern California since it is served largely by one dominant newspaper, boasts an affluent population, and is the most rapidly growing county in the nation over 500,000 and is included in a metropolitan population of 11 million. We cannot ignore such a powerful growth area only 600 miles from our Corporate Offices and a logical extension of our coast to coast market. Our entry into this market will be costly but it has been carefully planned and will proceed in a slow and orderly fashion. We moved our most experienced District Manager C. F. McCoy, Senior Vice President, to oversee this district. He has 30 years of service with the Company ranging from store and district management to Executive Vice President Operations in the Corporate Offices. Great care has been taken to assure that start-up costs and losses will be held to a minimum.

Skaggs-Albertson's entered Florida just 16 months ago and we now have 9 stores open with 6 under construction. The Florida operation showed a profit during the fourth quarter and management of that group has demonstrated it is equal to the challenge of meeting the demands of this market in the state which is second in our

LETTER TO SHAREHOLDERS

nation in rate of population growth. The Skaggs-Albertson's partnership continues to become a more significant profit center and requires that our corporate management continue to devote an increasing amount of attention to policy and overview of operating decisions. Specific responsibility for this duty rests with John Hartman, who was the first President and Chief Executive Officer of the partnership. He headed the partnership during it's formative years, developed the initial prototype stores, and subsequently returned to Skaggs and serves as Vice Chairman of the Board. One of his principal duties, assisted by other Corporate officers and staff, is to assure that direction and control are exercised over the partnership.

On March fifth, we filed a registration statement with the Securities and Exchange Commission in anticipation of the Company's selling eight-hundred-thousand shares of common stock. We consider the financial climate to be favorable for an equity issue and believe the additional capital will be beneficial for the Company and our shareholders. The proceeds will be used to retire revolving credit and other bank debt; however, prepayment penalties in some of our loan agreements preclude retiring the entire long term debt. We will accelerate payments and retire present debt as rapidly as possible. Our current policy to finance new stores and growth through use of cash flow will continue in the future. Capital expenditures for 1976 will approximate $16 million and we fully expect cash flow, after dividends, to exceed this figure.

In late June or early July a move will be made to a new office building. Corporate offices are scattered in six separate buildings over a two mile distance. We expect to realize economies by putting all of our people together which will allow reduction of personnel through the elimination of overlapping functions. Much thought has gone into the consolidation of our offices and care has been taken to avoid commiting the company to a facility that could be a financial burden.

The past five years have been unusually demanding for our company. During this period, our employees have demonstrated qualities that are difficult to describe. Their fortitude, energy, intelligence and commitment have allowed us to weather this trying and rewarding period. Many transfers were necessary in '71 and '72, then with accelerating profitability and store openings from '73 on, new opportunities have opened for everyone. Our success has required that we ask almost the impossible from our people. They have accepted the challenge, fulfilled our demands and with us can take pride in what has been accomplished. We extend our thanks to them.

L. S. Skaggs
Chairman of the Board

Vice-Chairman of the Board

President

SKAGGS COMPANIES, INC.

231 STORES IN 22 STATES

DENVER DISTRICT — 21 STORES
John B. Reese, District Manager
2870 So. Colorado Blvd., Denver, Colorado

KANSAS CITY EAST DISTRICT — 12 STORES
William A. Hildebrandt, District Manager
3825 W. 95th St., Overland Park, Kansas

KANSAS CITY WEST DISTRICT — 18 STORES
Dale G. Callan, District Manager
3825 W. 95th St., Overland Park, Kansas

LAS VEGAS DISTRICT — 17 STORES
Carl Robinson, District Manager
P.O. Box 3995, North Las Vegas, Nevada

OMAHA DISTRICT — 13 STORES
Robert H. Myers, District Manager
4911 S. 72nd St., Omaha, Nebraska

ORANGE DISTRICT — 9 STORES
Clyde F. McCoy, District Manager
17642 East 17th St., Tustin, California

PHOENIX DISTRICT — 18 STORES
Kenneth F. Vanzant, District Manager
3141 E. Indian School Rd., Phoenix, Arizona

SALT LAKE DISTRICT — 28 STORES
Arnold E. Ford, District Manager
5550 S. 9th East, Salt Lake City, Utah

SPOKANE DISTRICT — 18 STORES
Tommy Curran, District Manager
10724 E. Sprague Ave., Spokane, Washington

ST. LOUIS DISTRICT — 16 STORES
Robert L. Benedict, District Manager
8959 Riverview Blvd., St. Louis, Missouri

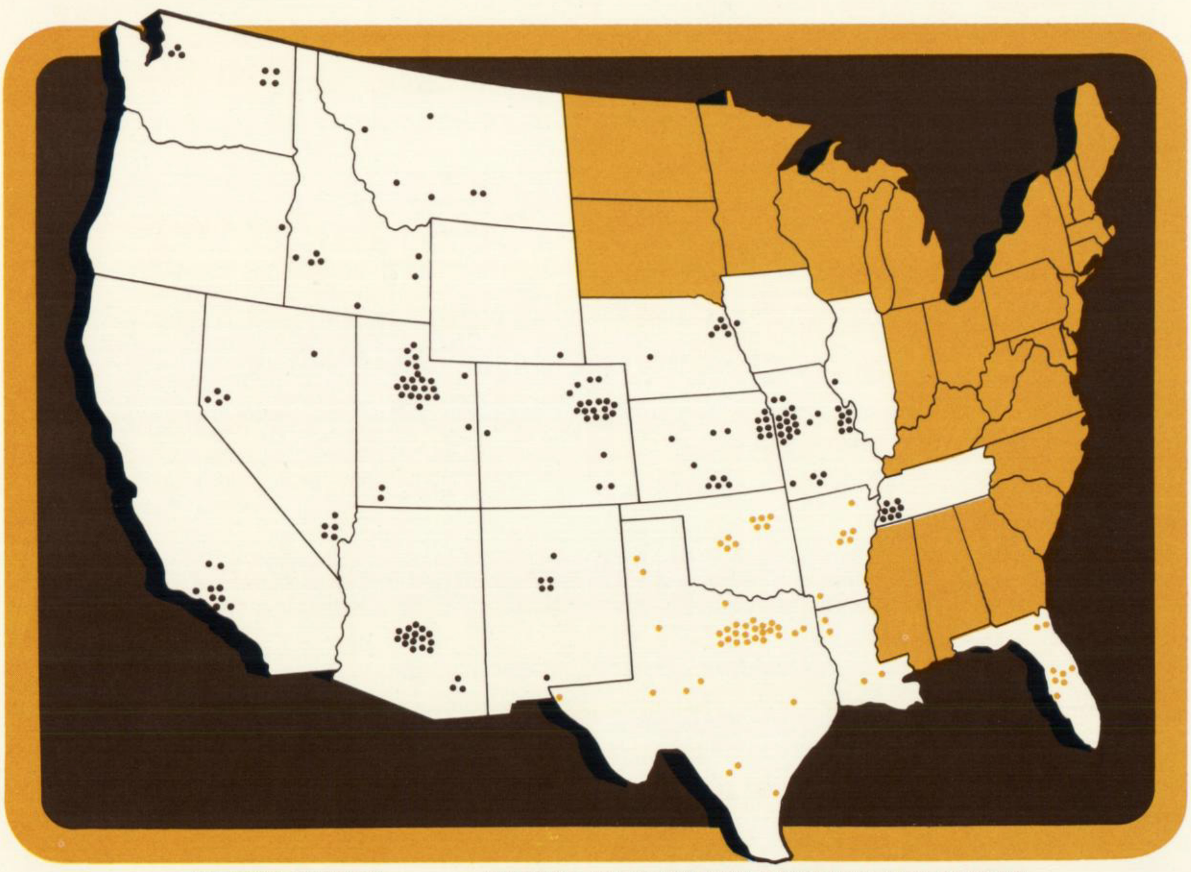
SKAGGS-ALBERTSON'S — TEXAS
Fenton L. Maynard - President
1100 Executive Drive West, Richardson, Texas

DISTRICT #1 — 16 STORES
Fred Burkhalter, District Manager

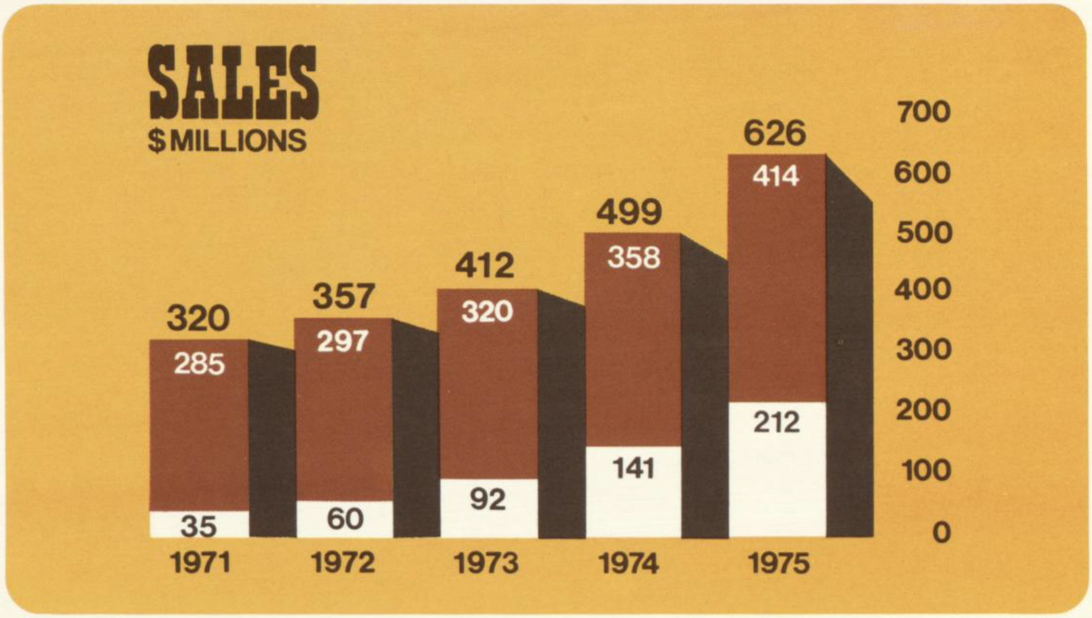
DISTRICT #2 — 18 STORES
Charles Findley, District Manager

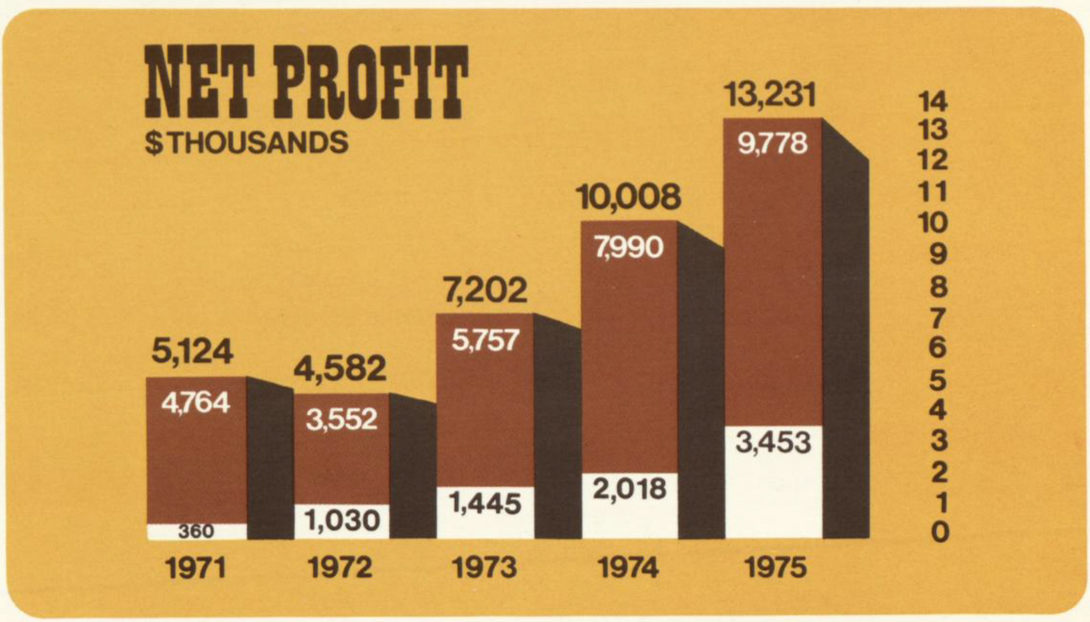
DISTRICT #3 — 19 STORES
Ron John, District Manager

SKAGGS-ALBERTSON'S — FLORIDA
John Sheehan - President - 8 STORES
602 Courtland Avenue, Suite 15, Orlando, Florida



• SKAGGS STORES • SKAGGS-ALBERTSON'S COMBINATION STORES



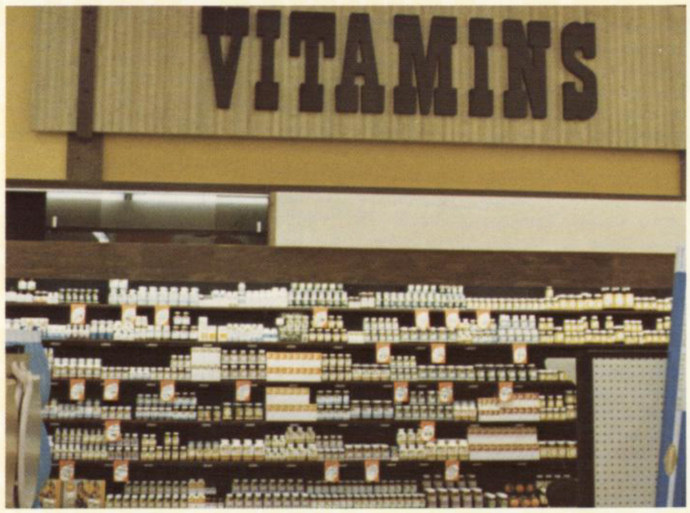


SKAGGS COMPANIES, INC. SKAGGS-ALBERTSON'S CONTRIBUTION

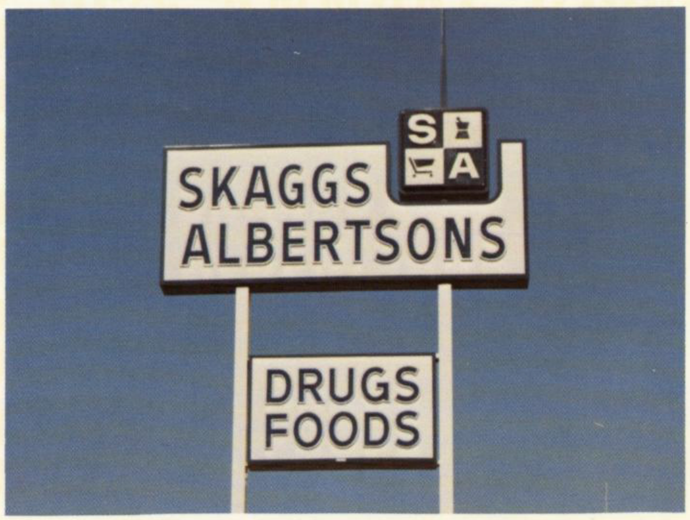

PHARMACY


GRAND OPENING
SKAGGS


COSMETICS


VITAMINS


FRESHNESS & QUALITY GUARANTEED


S A
SKAGGS
ALBERTSONS
DRUGS
FOODS

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE CONSOLIDATED STATEMENT OF INCOME

During the past five years sales have increased from $319,973,000 in fiscal 1971 to $625,688,000 in fiscal 1975 (an increase of 95%). Net income has increased during this period from $5,124,000 in fiscal 1971 to $13,231,000 in fiscal 1975 (an increase of 158%).

Sales in fiscal 1972 increased by 12% from 1971, but net income declined by 10%. This decline was primarily attributable to lower gross margins resulting from measures taken during the year to correct problems at the 64 drug stores which had been acquired from Katz Drug Company on December 31, 1970. Such measures included inventory liquidation and the extensive use of low-priced promotional items. Additional corrective actions included a 31% increase in advertising expenditures, store remodeling and the relocation of 45 of the Company's store managers and assistant managers to supervise the operations of the stores.

Sales increased 15% from 1972 to 1973; 21% from 1973 to 1974; and 26% from 1974 to 1975. These increases are attributable primarily to new stores opened during each of such years (15 in 1973; 16 in 1974; 31 in 1975), increased volume in existing stores and, to a lesser extent, inflation-related price increases. The same factors caused increases during this period in cost of goods sold, rents, and depreciation and amortization by approximately the same percentage as sales; while operating, general and administrative expenses also increased with sales, they decreased slightly as a percentage of sales.

The Company's effective income tax rates for the five years were as follows: 1971 — 49.8%; 1972 — 45.5%; 1973 — 46.3%; 1974 — 48.1%; and 1975 — 46.7%. These fluctuations were primarily due to variations in the amount of investment tax credit available in the respective periods.

Primarily as the result of the factors discussed above, net income increased by 57% from 1972 to 1973; by 39% from 1973 to 1974; and by 32% from 1974 to 1975.

FINANCIAL REVIEW

Subsequent Events

On February 10, 1976, the Board of Directors of the Company authorized a split of the Common Stock of the Company at the rate of three new shares for each two shares issued, such split to be effected in the form of a 50% stock dividend. Retroactive effect of this split has been given in the financial statements for the year ended January 1, 1976 by transferring from paid-in capital to Common Stock the amount of $2,479,339 representing the par value of the estimated total number of shares to be issued. All references to shares of Common Stock and per share data in the financial statements have been adjusted to reflect the three-for-two split.

On March 3, 1976, the Board of Directors of the Company approved the filing of a Registration Statement with the Securities and Exchange Commission wherein the Company proposes to offer for sale to the public up to 800,000 shares of its authorized but unissued Common Stock.

Income Taxes

The provisions for federal income taxes differ from the amount which would be provided by applying the federal income tax rate of 48% to income before provision for taxes as follows:

	1975	1974
Tax expense computed at 48% of pre-tax income	$11,914,300	$9,252,559
State income taxes, net of federal tax computed benefit	433,600	317,397
Investment tax credit	(821,000)	(341,000)
Other	63,100	39,652
	$11,590,000	$9,268,608
Effective income tax rate	46.7%	48.1%

Income tax returns for all years prior to 1973 have been examined by the Internal Revenue Service.

Capital Expenditures

Capital expenditures of 1975, exclusive of first time inventory for new stores, amounted to $12.2 million compared to $7.4 million in 1974. The increase was due to an accelerated store expansion program in 1975.

Short-Term Borrowing

The Company maintains short-term revolving lines of credit with several banks. The total credit that could be extended under these agreements aggregated $25,000,000 at January 1, 1976. Terms provide for interest at prime commercial rates, and some agreements require compensating balances on deposit at the lending institutions of amounts up to 20% of the amount borrowed. At January 1, 1976, none of the credit available was outstanding, but compensating balances of $1,050,000 were on deposit to maintain the commitments. During the year ended January 1, 1976, short-term borrowings averaged $5,000,000 at an average annual interest rate approximating 8 percent. In comparison with average short-term borrowings of $8,000,000 during the year ended January 2, 1975, at an average annual rate of approximately 11 percent. The Company's ability to incur short-term indebtedness is retricted by the long-term loan agreements.

Long-Term Debt

	January 1 1976	January 2 1975
Borrowings under Revolving Credit and Term Loan Agreement	$11,000,000	$12,000,000
9¾% sinking-fund notes, due January 1, 1987, annual payment of $400,000 required	4,400,000	4,800,000
5¾%sinking-fund note, due August 1, 1976 — $76,000 and $77,000 current maturities	76,000	153,000
Mortgage and promissory notes with interest ranging from 4¾% to 7¼%; buildings having an original cost of $937,094 are pledged as collateral — $62,454 and $193,325 current maturities	307,296	595,027
	15,783,296	17,548,027
Less current maturities	538,454	670,325
	$15,244,842	$16,877,702

Long-term debt maturities are:

1976	$ 538,454
1977	471,008
1978	3,182,567
1979	3,159,089
1980	3,159,868
After 1980	5,272,310
	$15,783,296

As of October 1, 1974, the Company entered into a Revolving Credit and Term Loan Agreement with a group of four banks to borrow up to $15,000,000 over seven years. The agreement provides for loans in two phases, revolving credit loans until September 30, 1977 ("Phase One") and a term loan from October 1, 1977 through September 30, 1981 ("Phase Two"). During Phase One, the Company may borrow up to $15,000,000 in multiples of $500,000. Until October 1, 1976, these borrowings bear interest at rates between the principal bank's prime rate and 120% of such prime rate, depending on the compensating balances maintained by the Company with each bank. From October 1, 1976, through October 1, 1977, the borrowings will bear interest at rates between the principal bank's prime rate plus ¼ of one percent and 120% of such prime rate plus ¼ of one percent, depending upon such balances. On January 1, 1976, the Company was not maintaining such balances. Until October 1, 1977, the Company is required to pay a commitment fee of ½ of one percent per annum on the unused portion of the credit. Provided the Company is not in default under the agreement on October 1, 1977, it may convert the Phase One borrowings outstanding on such date into a term loan due October 1, 1981. The Company intends to convert any amounts then outstanding. Interest during Phase Two will be ½ of one percent above the principal bank's prime rate from time to time and will be paid quarterly. Payments of principal are to be made quarterly over the four years based upon, at the Company's election, either a four-year or a five-year amortization schedule. If the Company elects the four-year amortization schedule, 20% of the outstanding amount of the loan on October 1, 1977, will be payable on October 1, 1981. In addition, during Phase Two the Company, on a quarterly basis, is required either to maintain compensating balances equal to at least 15% of the average outstanding term loan or to pay an additional fee. Among other covenants and restrictions, the agreement requires the Company, on a consolidated basis, to maintain working capital equal to $40,000,000 or

FINANCIAL REVIEW

Long-Term Debt (Continued)

current assets of at least 160% of current liabilities. Also, the agreement limits the payment of dividends by the Company (except stock dividends) on its stock to $2,000,000 plus 50% of consolidated net income (as defined) since January 4, 1974.

Under the terms of the 9¾% sinking-fund note agreements, among other covenants and restrictions, the Company is required on a consolidated basis to (a) maintain working capital equal to the greater of 133% of funded debt (as defined), or $40,000,000, and maintain current assets of not less than 150% of current liabilities and (b) limit the payment of dividends (except stock dividends) or other distributions on Common Stock and the redemption, retirement or purchase of Common Stock after December 31, 1969, to a total of $2,000,000 plus net earnings (as defined) and net proceeds from the sale of the Company's capital stock.

At January 1, 1976, retained earnings of approximately $11,000,000 were available for cash dividends or other distributions under the Revolving Credit and Term Loan Agreement, the most restrictive of the above agreements.

Skaggs-Albertson's Partnership

The Company and Albertson's, Inc. each own 50% of a partnership which operates super drug stores and super drug - grocery combination stores in Texas, Arkansas, Oklahoma, Louisiana and Florida.

At January 1, 1976, the partnership had commitments from financial institutions for approximately $4,000,000 for the sale and leaseback of combination stores to be constructed. Such commitments provide for leases with initial terms of 20 or 25 years, under which the lessee will be responsible for payment of taxes, insurance and certain other expenses.

At January 1, 1976, the partnership was contingently liable for contractual obligations of approximately $6,200,000 for the construction of new stores and $2,100,000 for the purchase of fixtures and equipment.

Fifty percent of the operating results of the partnership have been consolidated with those of the Company for 1975 and 1974. A summary of the Company's share thereof before consolidating eliminations was:

	1975	1974
	(In Thousands)	
Sales	$212,222	$140,978
Other income	309	431
Total income	212,531	141,409
Cost of goods sold	166,790	111,470
	45,741	29,939
Operating, general and administrative expense (excluding items listed below)	33,792	22,100
Rents	3,141	2,495
Depreciation and amortization	1,578	986
Taxes other than income taxes	685	478
	39,196	26,059
Income before provision for income taxes	$ 6,545	$ 3,880

Fifty percent of the assets and liabilities of the partnership have been consolidated with those of the Company at January 1, 1976, and January 2, 1975. A summary of the Company's share before consolidating eliminations was:

	1975	1974
	(In Thousands)	
Assets:		
Current assets	$26,438	$24,214
Property, plant and equipment (net)	12,148	8,702
Other assets	1,327	902
	$39,913	$33,818
Liabilities and owners' equity:		
Current liabilities	$14,585	$11,212
Long-term debt	355	124
Owners' equity	24,973	22,482
	$39,913	$33,818

Profit-Sharing and Pension Plans

The Company and the Skaggs-Albertson's partnership have profit-sharing retirement plans covering substantially all full-time employees not subject to a collective bargaining agreement. The costs of these plans are funded when accrued. The Company also has an unfunded pension plan covering certain employees. The combined amount charged to expense under these plans was $1,543,494 and $993,162 for 1975 and 1974, respectively. The actuarially computed value of vested benefits of the unfunded plan at January 1, 1976, was not material.

In accordance with the provisions of the Employee Retirement Income Security Act of 1974, the Company has made certain amendments to its profit-sharing retirement plan, which amendments have been approved by the Internal Revenue Service. The profit-sharing retirement plan was frozen as of December 31, 1975. No more contributions will be made to this plan in the future. Accumulated benefits will be paid by the Trustee to members of the plan as they terminate under the amended provisions of the plan. Participants' shares of less than $1,000 at December 31, 1975, will be paid out in lump sum by the Trustee prior to March 1976.

The Company is developing a new defined-benefit pension plan commencing in 1976 with provisions for prior service. The new plan will be available to all full-time employees other than those union employees who have elected a union pension program. The new plan will be developed in accordance with the provisions of the Employee Retirement Income Security Act of 1974. An estimate of the effect of the new plan on future pension costs will not be available until completion of the plan.

Stock Option Plans

The Company had a stock option plan which expired on June 12, 1975. A summary of changes during the years ended January 1, 1976 and January 2, 1975 is as follows:

	Number of Shares at $5.64 Granted June 12, 1970	
	1975	1974
Beginning of year	9,010	11,385
Exercised	(8,862)	(588)
Cancelled	(148)	(1,787)
Ending of year	-0-	9,010

FINANCIAL REVIEW

Stock Option Plans (Continued)

On May 21, 1975, the stockholders approved a stock option plan for key employees, reserving 750,000 shares of Common Stock. This plan permits the grant of both qualified and nonqualified options. Qualified options must be exercised within five years from date of grant and must be exercised at prices of not less than 100% of the market value of the underlying Common Stock at date of grant. Nonqualified options may specify any exercise price and may be exercised within ten years.

During 1975 the Company granted nonqualified stock options to certain key employees of the Company and the Skaggs-Albertson's partnership to purchase Common Stock of the Company at $.67 a share. On July 21, 1975, options for 13,923 shares were granted to employees of the partnership and on August 13, 1975, options for 28,950 shares were granted to employees of the Company. The options are generally exercisable as follows: None within the first five years, 20% during each succeeding year until the end of the tenth year from the granting date, at which time the options will be fully exercisable. The excess of market value over the option price at date of grant is deferred and amortized as compensation expense over the term of the options. During 1975 compensation expense of $31,305 was recognized with $661,000 being deferred for future amortization.

Commitments

Lease Commitments

The basis for computing rental expense of the Company, including the Skaggs-Albertson's partnership, during the last two years was:

	1975	1974
Minimum annual rent, including property tax, insurance and maintenance required by certain leases	$12,244,558	$10,705,289
Additional rent based upon a percent of sales exceeding specified amounts	1,303,242	915,730
Total rental expense	$13,547,800	$11,621,019

These rents originate from existing leases covering substantially all of the stores and certain other properties operated by the Company. The leases expire at various dates to 2054 and require minimum annual rentals. The following tabulation shows the total periodical commitment based on minimum annual rentals for all leases and for noncapitalized financing leases. Noncapitalized financing leases allow the lessor to recover substantially all of his investment over a noncancellable term which is usually in excess of 15 years.

	Minimum Rentals	
Period	All Leases	Noncapitalized Financing Leases
1976	$11,385,502	$10,502,332
1977	11,171,605	10,382,758
1978	10,971,208	10,260,415
1979	10,796,217	10,142,862
1980	10,362,666	9,850,268
1981-1985	45,731,071	43,865,715
1986-1990	39,335,186	38,722,463
1991-1995	28,502,770	28,235,793
1996-2054	20,103,514	19,962,394

Commitments (Continued)

Most of the Company's leases require payment of property taxes and insurance and some provide for additional rentals if sales exceed specified amounts. Renewal options for additional five-year periods exist on substantialy all of these leases, the longest being seven additional five-year periods. The minimum rentals shown above are not intended to represent forecasts of future rental expenses, nor amounts payable in case of default.

The present values of minimum lease commitments of noncapitalized financing leases based on interest rates implicit in the leases were:

	January 1, 1976	January 2, 1975
Present value — store properties leased	$82,716,445	$70,439,100
Range of interest	3.2%-15%	2.84%-15%
Weighted average annual interest rate:		
Skaggs Companies, Inc. (directly)	6.93%	6.95%
Skagg's-Albertson's partnership	7.37	7.53

The above present values were determined by discounting the aggregate commitment for each lease by the applicable implicit interest factor. The present value of the leases on which lessor pays all or part of the property tax and fire insurance was $27,441,042 at January 1, 1976. The comparable present value at January 2, 1975 was $26,671,000.

The estimated effect on net income assuming lease commitments on the above noncapitalized financing leases could have been recorded as debt, resulting in capitalization and amortization of the related assets, is set forth in the following tabulation:

	1975	1974
Interest expense	$5,858,089	$4,966,133
Depreciation expense	4,749,294	4,337,233
	10,607,383	9,303,366
Rent expense deducted from income	(9,297,723)	(8,203,170)
Decrease in income before income tax	1,309,660	1,100,196
Tax at Company's effective tax rate	615,536	528,094
Decrease in income	$ 694,124	$ 572,102
Decrease in net income per share of weighted average number of shares of Common Stock	$.09	$.08

At January 1, 1976, the Company, exclusive of the Skaggs-Albertson's partnership, had one lease agreement for a new location which will become effective upon completion of a store by a specific date. The initial term of this agreement is 25 years, with minimum rentals to be determined based on ultimate building costs.

FINANCIAL REVIEW

Commitments (Continued)

Construction Commitments

At January 1, 1976, the Company, excluding the Skaggs-Albertson's partnership, was committed under contracts for expenditures of approximately $1,257,000 for construction of store properties. The Company was also committed for expenditures of approximately $335,000 representing purchases of fixtures and equipment.

SIGNIFICANT ACCOUNTING POLICIES:

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, together with it's proportionate share of the assets, liabilities, income and expenses of Skaggs-Albertson's, a 50% owned partnership. All material intercompany transactions and balances have been eliminated in consolidation.

Inventories

Inventories are stated at the lower of cost determined on the first-in, first-out method or market.

Construction in Progress

Cost of construction in progress and land subject to sale and leaseback, shown on the statement of financial position as current assets, represents land and buildings under construction for which firm commitments have been received for their sale and subsequent leaseback during the next year. The account also includes an insignificant amount of cost of land and store buildings under construction, which the Company intends to dispose of under sale and leaseback arrangements but which are uncommitted at the present time.

Depreciation and Amortization

Provision for depreciation and amortization of plant and equipment has been made on the straight-line basis, with asset lives as follows:

Buildings	20 to 40 years
Furniture, fixtures and equipment	2 to 10 years
Leasehold improvements	Life of leasehold or estimated useful life, whichever is shorter

The declining-balance method of computing depreciation is used for federal income tax purpoes. See "Income Taxes" below for tax accounting.

Deferred Store Opening Costs

The Company follows the practice of deferring net operating losses, including pre-opening costs, incurred by newly-opened stores from operations preceding their first quarterly closing. Such deferrals, which are limited to $60,000 per store including the Company's share for partnership stores, are written off quarterly on the straight-line basis. Store opening costs which occurred prior to January 4, 1974, are being amortized over a three-year period. Effective January 4, 1974, the Company changed the amortization period to one year following the quarter in which the costs were incurred. The amortization period used by the Skaggs-Albertson's partnership is three years.

Income Taxes

The provision for income taxes is the estimated amount of income taxes payable currently and in the future on income for the year. Deferred taxes arise principally from (a) the use of accelerated depreciation for tax purposes, (b) expensing store opening costs when incurred for tax purposes, and (c) recording in the accounts as current expense an estimated provision for claims incurred under self-insurance and deducting in the tax returns the losses when paid.

Investment Tax Credit

The investment tax credit is recorded on the flow-through method as a reduction in the provision for federal income taxes.

Stock Options

Under the Company's stock option plan which expired in 1975, loss on the sale of treasury stock to employees was charged to paid-in capital. Under the stock option plan adopted in 1975, the excess of market value over the option price at date of grant is deferred and amortized as compensation expense over the term of the options.

Earnings Per Share

Income per share of Common Stock was determined by dividing the daily weighted average number of shares of Common Stock outstanding during each year into net income. Stock options are omitted from the computation of earnings per share because of the insignificant effect.

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
Skaggs Companies, Inc.:

We have examined the consolidated statement of financial position of Skaggs Companies, Inc. and subsidiaries as of January 2, 1975 and the related consolidated statements of income, stockholders' equity and changes in financial position for the year (52 weeks) then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned financial statements present fairly the consolidated financial position of Skaggs Companies, Inc. and subsidiaries at January 2, 1975 and the consolidated results of their operations and the changes in financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding period.

COOPERS & LYBRAND

Salt Lake City, Utah
February 12, 1975

REPORT OF INDEPENDENT ACCOUNTANTS

Board of Directors
Skaggs Companies, Inc.

We have examined the consolidated statement of financial position of Skaggs Companies, Inc. and subsidiaries as of January 1, 1976, and the related consolidated statements of income, stockholders' equity and changes in financial position for the year (52 weeks) then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of Skaggs Companies, Inc. and subsidiaries at January 1, 1976, and the consolidated results of their operations and the changes in their financial position for the year (52 weeks) then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ERNST & ERNST

Salt Lake City, Utah
February 10, 1976, except as noted under *"Subsequent Events"*
as to which the date is March 3, 1976

SKAGGS COMPANIES, INC.

CONSOLIDATED STATEMENTS OF INCOME

	52 Weeks Ended	
	January 1, 1976	January 2, 1975
Sales	**$625,688,191**	$498,676,823
Other income	**2,129,705**	2,019,002
	627,817,896	500,695,825
Cost of goods sold	**474,883,254**	378,677,061
	152,934,642	122,018,764
Operating, general and administrative expenses (excluding items listed below)	**105,249,453**	82,617,226
Rents	**13,547,800**	11,621,019
Depreciation and amortization	**5,309,743**	4,557,888
Taxes other than income taxes	**1,689,617**	1,368,326
Interest on long-term debt	**1,889,199**	1,670,761
Other interest	**427,374**	907,380
	128,113,186	102,742,600
INCOME BEFORE PROVISION FOR INCOME TAXES	**24,821,456**	19,276,164
Provision for income taxes:		
Federal current	**10,349,500**	8,423,810
Federal deferred	**406,700**	234,419
State	**833,800**	610,379
	11,590,000	9,268,608
NET INCOME	**$ 13,231,456**	$ 10,007,556
Net income per share of Common Stock based on average shares oustanding of 7,423,846 in 1975 and 7,403,001 in 1974 (adjusted for three-for-two stock split declared on February 10, 1976)	**$1.78**	$1.35

SKAGGS COMPANIES, INC.

ASSETS	January 1, 1976	January 2, 1975
CURRENT ASSETS		
Cash	**$ 7,636,244**	$ 3,593,188
Accounts receivable	**3,334,410**	1,138,036
Merchandise inventories, at lower of cost (first-in, first-out) or market	**92,181,947**	78,573,294
Prepaid expenses	**2,379,517**	1,714,118
Note receivable (January 1, 1976 - $5,137,126) and construction in progress and land subject to sale and leaseback — at cost	**7,142,914**	7,822,311
TOTAL CURRENT ASSETS	**112,675,032**	92,340,947
PROPERTY, PLANT, AND EQUIPMENT — on the basis of cost		
Land	**1,710,887**	977,071
Buildings — Note B	**1,383,348**	1,372,931
Furniture, fixtures and equipment	**50,140,795**	37,665,008
Leasehold improvements	**10,708,543**	9,515,046
Construction in progress	**2,850,801**	1,563,379
	66,794,374	51,093,435
Less accumulated depreciation and amortization	**31,345,097**	21,992,398
	35,449,277	29,101,037
OTHER ASSETS		
Deferred store opening costs	**1,533,039**	1,247,597
Investments — at cost	**2,086,027**	1,718,207
Miscellaneous	**741,009**	688,835
	4,360,075	3,654,639
	$152,484,384	$125,596,623

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

LIABILITIES AND STOCKHOLDERS' EQUITY	January 1, 1976	January 2, 1975
CURRENT LIABILITIES		
Accounts payable	**$ 36,791,414**	$ 21,625,135
Accrued liabilities	**12,979,241**	10,904,773
Income taxes payable	**3,673,293**	2,996,222
Current maturities on long-term debt	**538,454**	670,325
TOTAL CURRENT LIABILITIES	**53,982,402**	36,196,455
LONG-TERM DEBT — less current maturities	**15,244,842**	16,877,702
DEFERRED INCOME TAXES	**2,456,532**	2,049,832
RESERVE FOR FUTURE RETIREMENT BENEFITS	**477,380**	492,086
STOCKHOLDERS' EQUITY		
Preferred Stock, par value $1 per share: Authorized 500,000 shares; none issued		
Common Stock, par value $1 per share: Authorized 10,000,000 shares; 7,438,018 shares issued in 1975 after adjustment for three-for-two stock split declared on February 10, 1976	**7,438,018**	4,958,679
Paid-in capital	**35,152,967**	37,701,401
Retained earnings	**37,911,169**	27,649,948
	80,502,154	70,310,028
Less cost of shares held in treasury (1975, 10,548 shares; 1974, 19,425 shares)	**178,926**	329,480
	80,323,228	69,980,548
	$152,484,384	$125,596,623

SKAGGS COMPANIES, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock	Paid-In Capital	Retained Earnings	Treasury Stock	Total
Balance at January 3, 1974	$4,958,679	$37,708,340	$20,040,169	$(629,987)	$62,077,201
Net income for the year			10,007,556		10,007,556
Cash dividends — $.30 per share			(2,222,401)		(2,222,401)
Purchase of 1,500 shares of Common Stock for treasury				(8,487)	(8,487)
Issuance of 18,189 shares of Common Stock held in treasury, including 588 shares in connection with stock options		(6,939)	(175,376)	308,994	126,679
Balance at January 2, 1975	4,958,679	37,701,401	27,649,948	(329,480)	69,980,548
Net income for the year			13,231,456		13,231,456
Cash dividends — $.40 per share			(2,970,235)		(2,970,235)
Issuance of 8,877 shares of Common Stock held in treasury, including 8,862 shares in connection with stock options		(100,400)		150,554	50,154
Options granted under 1975 stock option plan		31,305			31,305
Three-for-two stock split declared on February 10, 1976	2,479,339	(2,479,339)			
Balance at January 1, 1976	$7,438,018	$35,152,967	$37,911,169	$(178,926)	$80,323,228

SKAGGS COMPANIES, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

	52 Weeks Ended	
	January 1, 1976	**January 2, 1975**
SOURCES OF FUNDS		
Net income	**$ 13,231,456**	$ 10,007,556
Add items affecting income not requiring current outlay of working capital:		
Provision for depreciation and amortization	**5,309,743**	4,557,888
Amortization of deferred store opening costs	**926,617**	769,062
Deferred income taxes	**406,700**	234,419
Other	**31,305**	
Total from operations	**19,905,821**	15,568,925
Increase in long-term debt		12,012,588
Net book value of property, plant, and equipment disposals	**500,922**	67,545
Net proceeds from sale of treasury stock	**50,154**	126,679
Proceeds from investments	**91,315**	31,924
	20,548,212	27,807,661
USES OF FUNDS		
Payments on long-term debt	**1,632,860**	10,667,000
Property, plant, and equipment additions	**12,158,905**	7,409,468
Cash dividends	**2,970,235**	2,222,401
Additions to deferred store opening costs	**1,212,059**	675,555
Increase in other assets — miscellaneous	**52,174**	449,611
Purchase of investments	**459,135**	155,409
Reduction in reserve for future retirement benefits	**14,706**	32,563
Purchase of treasury stock		8,487
	18,500,074	21,620,494
INCREASE IN WORKING CAPITAL	**$ 2,048,138**	$ 6,187,167
CHANGES IN WORKING CAPITAL		
Increase (decrease) in current assets:		
Cash	**$ 4,043,056**	$ (9,229,962)
Merchandise inventories	**13,608,653**	12,481,834
Note receivable and construction in progress	**(679,397)**	4,099,218
Receivables and prepaid expenses	**2,861,773**	(157,745)
	19,834,085	7,193,345
Increase (decrease) in current liabilities:		
Notes payable		(177,500)
Accounts payable	**15,166,279**	(1,472,496)
Accrued liabilities and taxes	**2,751,539**	3,009,395
Current maturities on long-term debt	**(131,871)**	(353,221)
	17,785,947	1,006,178
INCREASE IN WORKING CAPITAL	**$ 2,048,138**	$ 6,187,167

SKAGGS COMPANIES, INC.

YEAR	Net Sales (000 omitted)	Income before taxes (000 omitted)	Income before taxes as a percent of sales	Provision for depreciation and amortization (000 omitted)	Net income (000 omitted)	Net income as a percent of:		Cash dividends declared on common stock (000 omitted)	Per common share: (2)		Weighted average shares outstanding (000 omitted)	Working capital (000 omitted)
						Sales	Stockholders' equity at beginning of year		Net income	Cash dividends declared		
1975	$625,688	$24,821	4.0%	$5,310	$13,231	2.1%	18.9%	$2,970	$1.78	$.40	7,424	$58,693
1974	498,677	19,276	3.9%	4,558	10,008	2.0%	16.1%	2,222	1.35	.30	7,403	56,644
1973	412,324	13,416	3.3%	4,234	7,202	1.7%	12.7%	1,974	.97	.27	7,402	50,457
1972	357,419	8,407	2.4%	3,902	4,582	1.3%	8.4%	1,974	.62	.27	7,401	44,837
1971	319,973	10,213	3.2%	3,542	5,124	1.6%	9.9%	1,958	.69	.26	7,434	45,640
1970(1)	183,439	10,414	5.7%	1,626	5,155	2.8%	20.0%	1,389	.96	.24	5,377	34,469
1969	172,244	9,849	5.7%	1,470	4,681	2.7%	21.4%	826	.87	.23	5,377	18,331
1968	160,976	7,896	4.9%	1,378	4,041	2.5%	27.6%	669	.78	.21	5,184	17,665
1967	138,654	5,442	3.9%	1,193	2,939	2.1%	24.3%	294	.60	.15	4,928	14,388
1966	112,047	3,746	3.3%	913	2,125	1.9%	20.5%	142	.43	.15	4,928	12,188
1965	88,926	2,939	3.3%	570	1,579	1.8%	17.1%	209	.32	.04	4,928	12,341
1964	75,811	3,112	4.1%	437	1,680	2.2%	21.7%	182	.34	.04	4,928	8,657
1963	62,320	2,223	3.6%	342	1,104	1.8%	16.2%	178	.22	.04	4,928	7,359
1962	47,237	2,157	4.6%	228	1,055	2.2%	18.3%	178	.22	.04	4,797	4,426
1961	40,058	1,857	4.6%	173	914	2.3%	18.2%	89	.19	.02	4,797	5,070
1960	34,756	1,123	3.2%	165	556	1.6%	12.8%	71	.12	.01	4,797	4,437
1959	31,491	1,343	4.3%	205	664	2.1%	17.9%	18	.14	.01	4,797	2,862
1958	28,967	952	3.3%	209	486	1.7%	14.6%	85	.10	.02	4,797	2,341
1957	23,417	730	3.1%	174	372	1.6%	12.1%	78	.08	.02	4,797	1,961
1956	20,199	555	2.7%	163	289	1.4%	11.6%	67	.06	.01	4,497	1,589
1955	17,856	436	2.4%	151	233	1.3%	9.7%	62	.06	.01	4,196	1,966
1954	15,472	403	2.6%	118	200	1.3%	9.0%	47	.05	.01	4,196	1,849
1953	13,478	571	4.2%	86	271	2.0%	13.6%	61	.06	.01	4,196	1,291
1952	12,387	754	6.1%	85	331	2.7%	19.2%	62	.08	.01	4,196	1,467
1951	11,368	733	6.4%	82	321	2.8%	21.3%	93	.08	.02	4,196	1,240
1950	9,555	740	7.7%	75	403	4.2%	34.6%	62	.10	.01	4,196	1,240
1949	9,468	646	6.8%	72	393	4.2%	37.5%	279	.09	.07	4,196	834
1948	8,378	596	7.1%	53	364	4.3%	48.7%	62	.09	.01	4,196	593

(1) The results of operations and statistics pertaining thereto for the year 1970 do not include the operations of the Katz Drug Company, which was purchased as at December 31, 1970.

(2) Based upon total common and Class B common shares outstanding, adjusted to give retroactive effect to the 26-for-1 stock split in November 1965, the 3-for-2 stock split in July 1968, the 10 percent stock divedend in June 1970, the 5 percent stock dividend per share in March 1971, and the 3-for-2 stock split in February 1976, earnings per share are based on the weighted average number of shares outstanding during the year. The 1970 weighted average does not include the 1,967,815 shares of common stock issued in connection with the acquisition of Katz Drug Company at December 31, 1970. Dividends per share have also been restated to reflect these changes.

(3) Fifty percent of the operating results of the Skaggs-Albertson's partnership has been consolidated with those of the Company for 1975, 1974, 1973, 1972, 1971, and 1970.

28 YEAR FINANCIAL SUMMARY

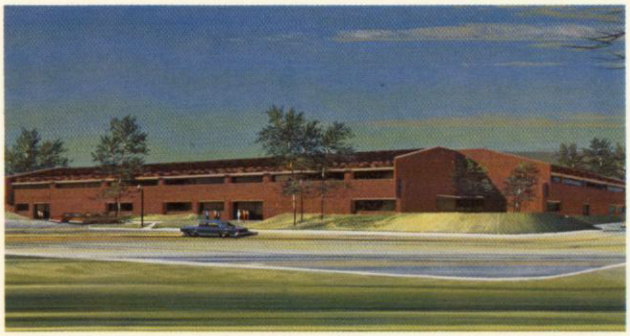
Ratio of current assets to current liabilities	Skaggs-Albertson's contribution to: (3)		Property, less depreciation and amortization (000 omitted)	Long-term debt less current installments (000 omitted)	Common stockholders' equity (000 omitted)	Common stockholders' equity per share	Shares outstanding at year-end (000 omitted)	Employees at year-end	Retail stores at year-end	Average sales per store (000 omitted)	Times inventory turned	YEAR
	Sales (000 omitted)	Income before taxes (000 omitted)										
2.1	$212,222	$6,545	$35,449	$15,245	$80,323	$10.81	7,427	9,758**	231†	$2,709*	6.6	1975
2.6	140,977	3,880	29,101	16,878	69,981	9.43	7,419	9,140**	205†	2,433*	6.3	1974
2.4	92,287	2,693	26,317	15,532	62,077	8.39	7,402	7,818**	192†	2,148*	6.2	1973
2.1	59,823	1,890	26,339	16,709	56,847	7.68	7,402	7,467**	183†	1,953*	4.8	1972
2.6	34,974	718	25,821	17,496	54,246	7.33	7,401	6,864**	177†	1,808*	5.1	1971
1.9	15,563	501	22,486	5,484	51,908	6.98	7,439	3,438**	98†	1,872*	5.4	1970
2.0			9,369	2,775	25,795	4.80	5,377	3,238	81	2,127	5.6	1969
2.3			9,343	5,550	21,882	4.07	5,377	3,350	80	2,012	5.9	1968
2.3			9,262	5,825	14,652	2.97	4,928	3,265	77	1,801	6.2	1967
2.7			9,613	6,050	12,086	2.45	4,928	3,227	72	1,556	6.2	1966
2.6			7,865	6,275	10,346	2.10	4,928	2,600	65	1,368	5.6	1965
2.5			4,294	4,000	9,252	1.88	4,928	2,103	47	1,613	6.7	1964
2.3			3,875	4,000	7,755	1.57	4,928	2,372	46	1,355	5.6	1963
2.2			1,925	640	6,829	1.42	4,797	1,670	33	1,431	6.4	1962
2.7			1,413	700	5,766	1.20	4,797	1,450	29	1,381	6.3	1961
2.8			1,277	860	5,017	1.04	4,797	1,295	27	1,287	6.0	1960
1.8			1,546	820	4,332	.90	4,797	1,209	25	1,260	6.1	1959
1.7			1,981	1,212	3,714	.77	4,797	1,208	24	1,207	6.9	1958
1.7			1,674	947	3,330	.69	4,797	1,024	23	1,018	6.8	1957
1.7			1,513	586	3,075	.64	4,797	884	22	918	6.4	1956
2.2			948	75	2,501	.60	4,196	848	20	893	7.3	1955
2.7			1,138	50	2,383	.57	4,196	848	20	774	7.1	1954
2.2			717	—	2,205	.53	4,196	678	16	842	7.5	1953
2.5			502	—	1,999	.48	4,196	593	14	885	8.0	1952
2.3			398	—	1,725	.41	4,196	551	13	874	8.2	1951
2.3			214	—	1,504	.36	4,196	466	11	869	9.1	1950
2.0			254	—	1,163	.28	4,196	466	11	861	9.0	1949
1.8			249	—	1,050	.25	4,196	424	10	838	9.0	1948

** Includes 50% of the employees of Skaggs-Albertson's partnership.

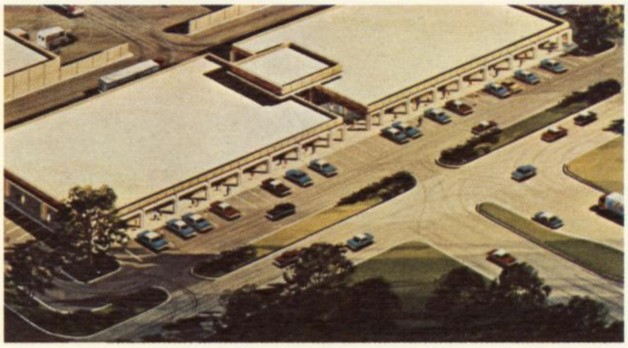
† Includes all stores in the Skaggs-Albertson's partnership.

* Includes 50% of the sales in the Skaggs-Albertson's partnership.

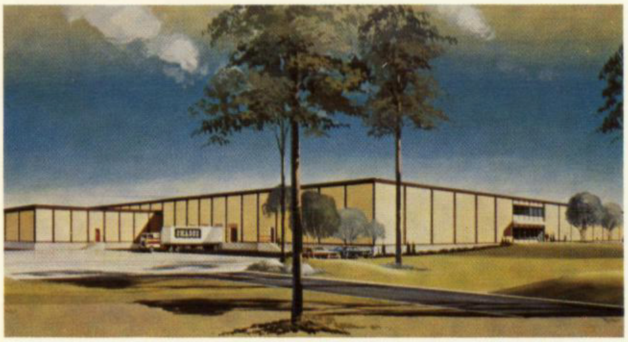
SKAGGS COMPANIES, INC.



In the summer of 1976 we anticipate moving to a new office building. This will bring together all of our office and corporate staff into a 77,000 square foot leased facility. Our new address will be 310 Bearcat Drive, Salt Lake City, Utah 84115.



The Skaggs-Albertson's Texas General Office Complex in Richardson, Texas, is a 25,000 square foot complex housing executive offices, supervisory personnel, construction, design, advertising and accounting.



The new Salt Lake Distribution Center was completed in January 1976 replacing an old, outmoded facility. It houses our corporate label products, Salt Lake District distribution operation and the Company's store fixture fabrication shop.

OTHER INFORMATION ABOUT THE COMPANY

Primary Business

General

The Company, a Delaware corporation, is the successor to a Utah partnership which commenced operation in 1939 with the purchase of four drug stores. The Company presently operates 170 super drug stores and has a 50% interest in the assets, liabilities, income and expense of the Skaggs-Albertson's partnership (the "Partnership"). Organized in 1970, the Partnership operates 47 super drug-grocery combination stores and 14 super drug stores in Texas, Oklahoma, Arkansas, Louisiana and Florida. Albertson's, Inc., the other 50% partner in the Partnership, is a western supermarket chain.

Super Drug Store Operation

The drug stores operated by the Company and the Partnership are generally known as super drug stores. Super drug stores cater to a larger trading area than traditional or corner drug stores and carry a broad selection of general merchandise in addition to traditional drug stores products. All of the Company's super drug stores operate under the "Skaggs" name. Such stores offer a broad selection of proprietary drugs and cosmetics and all but four have a prescription department employing registered pharmacists. In addition, each store carries general merchandise usually including automotive supplies, cameras and photographic supplies, clothing and soft goods, furniture, garden supplies, hardware items, household goods, liquor, promotional food items, small appliances, sporting goods, toys, and watches and jewelry.

Most of the super drug stores operated by the Company are located in suburban areas; approximately 8% are in downtown districts. All suburban stores have adequate paved and lighted parking facilities adjacent to the stores, while downtown stores rely primarily on public parking. All stores are air conditioned, have modern fixtures and equipment and are arranged to permit optimum display of merchandise for the convenience of customers. The stores range in size from 10,000 to 90,000 square feet of total floor space, the majority having 20,000 to 30,000 square feet. The floor space of all super drug stores opened during the last five years has averaged 29,000 square feet per store. About two-thirds of the floor space in each store is selling area, the remainder being used for storeroom and office facilities.

Other than prescription drugs, no class of products or services accounted for 10% or more of sales during the most recent five fiscal years. The percentage of sales of prescription drugs to total sales of Company operated super drug stores for the last five fiscal years was as follows: 1971—10.1%; 1972—9.1%; 1973—10.5%; 1974—10.3%; 1975—9.9%. Since September 1962, the Company has offered a discount of 15% on prescription drugs to senior citizens who are eligible for social security benefits and register with the Company.

The merchandising policy for the Company's super drug stores is based on high sales volume per store and on the sale of a broad line of nationally advertised brand-name products at relatively low retail prices. Sales of Company and other private brand items have increased in recent years, but accounted for less than 5% of the sales attributable to Company operated super drug stores in fiscal 1975. All stores are operated on the self-service principle except for sales of prescription drugs. In some stores, sales persons assist customers in selecting cameras, candies, liquors and tobacco. The Company uses extensive advertising to stimulate sales and considers its advertising program to be a material factor in its merchandising policy. The Company uses newspapers as its principal advertising medium. Radio and television are used to a lesser extent. Advertising expenditures during 1975 were approximately $9,500,000.

The Company does not directly extend credit to its retail customers but does honor bank credit cards, which accounted for approximately 6% of total sales in fiscal 1975. The Company does not give trading stamps at any of its stores.

Company operated super drug stores are generally open for business 12 hours per day for six days a week and 9 hours on Sunday.

Partnership Operations

The super drug-grocery combination stores operated by the Partnership are single-store units offering both food and non-food items. Approximately half of the area in each store is for the display of grocery items and the remainder for the display of products normally offered in a super drug store. The Company believes that the Partnership is unique in the retail industry in that it and Albertson's share equally in the results of operations, regardless of the source of sales or the size of the areas devoted to the two classes of items. There is no physical separation between the food and drug areas, and there are common check-out stands in all stores. All of these combination stores are operated under the name "Skaggs-Albertson's." Most of the Partnership's combination stores have approximately 55,000 square feet of floor space. Site selection and merchandising policy of such combination stores are similar to those employed by the Company in the operation of its super drug stores. Approximately 25% of the combination stores are open 24 hours a day, seven days a week, and the balance are open 16 hours a day, seven days a week.

The Partnership also operates 14 super drug stores under the "Skaggs" name, generally located in areas which are served by combination stores as well. These super drug stores were all previously operated by the Company and were transferred to the Partnership in order to balance the contributions of the two partners and to effect economies in advertising and administration. Such super drug stores are operated in the same manner and feature the same type of merchandise as the super drug stores operated by the Company.

Decentralization

The operations of the stores of both the Company and the Partnership are largely decentralized. Although the Company and the Partnership establish general merchandising and advertising policies for all stores, within the framework of such policies, and consistent with the objectives of the other stores in his immediate trading area, each store manager selects and orders the products to be handled, establishes the prices to be charged and plans the advertising for the items carried in his store. Substantially all merchandise is sent directly to and warehoused at each store, although limited warehouse facilities are maintained in Salt Lake City, Phoenix, Denver, Kansas City, Las Vegas, Omaha and Dallas. Supervisory personnel in the general administrative office in Salt Lake City and in ten district offices coordinate these functions for the Company. Each of the Partnership's stores is directed from one of two divisional headquarters, located in Dallas, Texas and Orlando, Florida.

STORES OPENED AND CLOSED-5 YEAR SUMMARY

	1975	1974	1973	1972	1971
Skaggs:					
Opened	**19**	6	9	10	74
Closed	**5**	3	6	16	0
Total	**170**	156	153	150	156
Skaggs-Albertson's:					
Opened	**12**	10	6	12	5
Closed	**0**	0	0	0	0
Total	**61**	49	39	33	21
Total — All Stores ...	**231**	205	192	183	177

Addresses

SKAGGS COMPANIES, INC.
General Offices
212 West 13th South
Salt Lake City, Utah 84115
(801) 487-4751
General Offices (As of the summer of 1976)
310 Bearcat Drive
Salt Lake City, Utah 84115
(801) 487-4531

SKAGGS-ALBERTSON'S - TEXAS
1100 Executive Drive West
Richardson, Texas 75080 (801) 238-7231

SKAGGS-ALBERTSON'S - FLORIDA
602 Courtland Avenue - Suite 150
Orlando, Florida 32084 (305) 628-5858

Auditors

Ernst & Ernst
Los Angeles, California

Counsel

Jones, Waldo, Holbrook & McDonough
Salt Lake City, Utah

Medical Director

W. E. Peltzer, M.D.

Transfer Agents and Registrars

Walker Bank & Trust Company
Salt Lake City, Utah
Chase Manhattan Bank
New York, New York

Form 10K Available

Form 10K as filed with the Securities and Exchange Commission for the year ended January 2, 1976 is available without charge to interested persons upon written request to the Treasurer, Skaggs Companies, Inc.

Annual Meeting

The Annual Meeting of the Common Stockholders will be held at 10:00 A.M. on Wednesday, May 19th, 1976 at the Skaggs Companies, Inc. Executive Office Building at 212 West 13th South, Salt Lake City, Utah.

SKAGGS COMPANIES, INC. BOARD OF DIRECTORS

J. A. Albertson	Chairman of the Board - Albertson's, Inc. Boise, Idaho (supermarket chain)
C. H. Buckmiller†	Chairman of the Audit Committee
E. L. Elwell†	Retired - Former President of Company
George Jeffers	President & Chief Operating Officer
John Hartman*	Vice Chairman of the Board & Chief Financial & Development Officer
B. S. Heddens, Jr.†	Chairman of the Board - The First National Bank of Kansas City Chairman of the Board & Chief Executive Officer - First National Charter Corp. Kansas City, Missouri (commercial bank and bank holding company)
A. B. Kesler, Jr.*†	Chairman of the Board & Chief Executive Officer - Walker Bank & Trust Co. Salt Lake City, Utah (commercial bank)
R. S. Lowen*	Executive Vice President - Administration
R. L. Shanaman	Senior Vice President & Treasurer
E. A. Sinclair	Secretary
L. S. Skaggs*	Chairman of the Board & Chief Executive Officer
E. A. Swinyard, Ph.D.	Dean of the College of Pharmacy University of Utah, Salt Lake City, Utah (higher education)

*Executive Committee of the Board
†Audit Committee

SKAGGS-ALBERTSON'S OFFICERS

F. L. Maynard	President Skaggs-Albertson's Texas
John Sheehan	President Skaggs-Albertson's Florida
Val Buckmiller	Executive Vice President Skaggs-Albertson's
Bobby Fowler	Executive Vice President Skaggs-Albertson's

SKAGGS COMPANIES, INC. MANAGEMENT

L. S. Skaggs	Chairman of the Board & Chief Executive Officer
John Hartman	Vice Chairman of the Board & Chief Financial & Development Officer
George Jeffers	President & Chief Operating Officer, Director
R. C. Buckmiller	Executive Vice President - Merchandising
R. S. Lowen	Executive Vice President - Administration, Director
E. A. Sinclair	Secretary and Director
R. M. Bingham	Senior Vice President - Merchandise & Advertising
J. R. Bowman	Senior Vice President - Midwest Regional Manager
R. E. Davis	Senior Vice President - Corporate Development
A. E. Ford	Senior Vice President & District Manager
M. H. Gutke	Senior Vice President - Professional Relations
C. F. McCoy	Senior Vice President & District Manager
Q. G. McKay	Senior Vice President - Human Resource Development
J. B. Reese	Senior Vice President & District Manager
R. L. Shanaman	Senior Vice President & Treasurer, Director
Norma Weathers	Senior Vice President - Cosmetics

SKAGGS COMPANIES, INC. 1975 ANNUAL REPORT

SKAGGS COMPANIES, INC. 1975 ANNUAL REPORT
SKAGGS COMPANIES, INC. 1975 ANNUAL REPORT
SKAGGS COMPANIES, INC. 1975 ANNUAL REPORT
SKAGGS COMPANIES, INC. 1975 ANNUAL REPORT
SKAGGS COMPANIES, INC. 1975 ANNUAL REPORT
SKAGGS COMPANIES, INC. 1975 ANNUAL REPORT
SKAGGS COMPANIES, INC. 1975 ANNUAL REPORT
SKAGGS COMPANIES, INC. 1975 ANNUAL REPORT
SKAGGS COMPANIES, INC. 1975 ANNUAL REPORT
SKAGGS COMPANIES, INC. 1975 ANNUAL REPORT
SKAGGS COMPANIES, INC. 1975 ANNUAL REPORT
SKAGGS COMPANIES, INC. 1975 ANNUAL REPORT
SKAGGS COMPANIES, INC. 1975 ANNUAL REPORT
SKAGGS COMPANIES, INC. 1975 ANNUAL REPORT
SKAGGS COMPANIES, INC. 1975 ANNUAL REPORT
SKAGGS COMPANIES, INC. 1975 ANNUAL REPORT
SKAGGS COMPANIES, INC. 1975 ANNUAL REPORT
SKAGGS COMPANIES, INC.

SKAGGS COMPANIES, INC. 1975 ANNUAL REPORT

SKAGGS COMPANIES, INC. 1975 ANNUAL REPORT
SKAGGS COMPANIES, INC. 1975 ANNUAL REPORT
SKAGGS COMPANIES, INC. 1975 ANNUAL REPORT
SKAGGS COMPANIES, INC. 1975 ANNUAL REPORT
SKAGGS COMPANIES, INC. 1975 ANNUAL REPORT
SKAGGS COMPANIES, INC. 1975 ANNUAL REPORT
SKAGGS COMPANIES, INC. 1975 ANNUAL REPORT
SKAGGS COMPANIES, INC. 1975 ANNUAL REPORT
SKAGGS COMPANIES, INC. 1975 ANNUAL REPORT
SKAGGS COMPANIES, INC. 1975 ANNUAL REPORT
SKAGGS COMPANIES, INC. 1975 ANNUAL REPORT
SKAGGS COMPANIES, INC. 1975 ANNUAL REPORT
SKAGGS COMPANIES, INC. 1975 ANNUAL REPORT
SKAGGS COMPANIES, INC. 1975 ANNUAL REPORT
SKAGGS COMPANIES, INC. 1975 ANNUAL REPORT
SKAGGS COMPANIES, INC. 1975 ANNUAL REPORT
SKAGGS COMPANIES, INC. 1975 ANNUAL REPORT
SKAGGS COMPANIES, INC. 1975 ANNUAL REPORT